



Procurement Management Business Line  
(Contract Closeout and Purchase Card Data Mining)  
FISCAL YEAR 2007 – 2011 PLAN

February 2007

# **Procurement Management Business Line FISCAL YEAR 2007 – 2011 PLAN**

## **Executive Summary**

This Five-year Business Plan describes the operations, planning, and objectives of the Procurement Management Services Business Line in the Department of Energy's (DOE) Working Capital Fund (WCF). The Procurement Management Services Business Lines consists of Contract Closeout and Purchase Card Data Mining. The plan is organized according to Balanced Scorecard (BSC) planning concepts. This plan uses the trends and lessons learned from the WCF's first nine years of operation to meet DOE and Office of Management and Administration (MA) strategic goals, and describe performance measures that will result in a more efficient and more customer-oriented Business Line.

### **Balance Score Card Objectives for Contract Closeout:**

- **Customers:** Provide competent and accurate closeout of targeted instruments.
- **Financials:** Improve the availability of funding to programs.
- **Internal Processes:** Improve contract closeout to accommodate changing contract types.
- **Learning and Growth:** Improve knowledge, skills, and abilities of staff and improve business systems.

### **Accomplishments:**

- In FY 2006, the contract closeout business line activity resulted in the retirement of 816 expired instruments and earned revenue of \$714,440. The retirement of those 816 expired instruments further resulted in the deobligation of uncosted balances in the amount of \$11,867,249. Accordingly, there was \$14 in deobligations for each \$1 charged to customers, a \$14 - \$1 turn on investment.

### **Balance Score Card Objectives for Purchase Card Data Mining:**

- **Customers:** Provide valid and reliable cardholder and transaction data to agency program coordinators and approving officials.
- **Financials:** Reduce the vulnerabilities and financial risk of the Purchase Card Program.
- **Internal Processes:** Implement purchase card surveillance via electronic data mining.
- **Learning and Growth:** Improve knowledge, skills and abilities of staff and enhance business systems by providing training in the effective and efficient operation of data mining software for surveillance purposes.

### **Accomplishments:**

- In FY2007, the data mining initiative was implemented DOE wide, to include all federal and contractor sites that utilize DOE's SmartPay Task Order (39 sites). This includes approximately 3000 cardholders that completed 166,257 transactions and spent \$87,366,971 using the DOE purchase cards. Out of those transactions, 108 were identified as questionable (7.74%). Two of those transactions were found to be misuse of the purchase card and 7 of those were determined to be vendor fraud. No cardholder

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fraud was associated with any of these transactions. If widespread, vendor fraud is reported to the Inspector General.

- An automated email notification and tracking system was developed in house to interface with the data mining software to provide greater efficiency in communicating questionable transactions to the purchase card community. The system, named the Questionable Transaction Review System (QTRS), received official certification and accreditation by the Chief Information Officer on September 30, 2006. Training in the use of the QTRS for the purchase card Program Coordinators and Reviewing Officials is planned for first quarter of fiscal year 2007.

### **Introduction**

The Contract Closeout segment of the business line provides programs with services to complete the procurement activity related to each instrument. The closeout process assures that all terms and conditions of the instrument have been fulfilled, all financial information has been submitted and evaluated, final payment has been made, any remaining funds have been deobligated, and the instrument is administratively retired in the Procurement data system. This reduces the Department's legal exposure to contractors. The retired instrument is boxed and stored locally or shipped to a federal storage facility. Instrument types include: purchase orders, firm fixed price contracts, interagency agreements, financial assistance instruments and cost reimbursement.

Government purchase card misuse has been identified at a number of Federal agencies over the last several years and has been the subject of numerous Government Accountability Office (GAO) and Office of Inspector General reports. A recent guide published by GAO<sup>1</sup> recommends the use of data mining, stating that “when conducted in concert with the tests of control activities, [data mining] can provide additional evidence of significant instances of noncompliance with laws and regulations and lack of adherence to internal control policies and procedures. In addition, it can identify previously unrecognized or under-appreciated risk in the program.” The Office of Procurement and Assistance Management (OPAM) has made implementation of a purchase card data mining email notification and tracking system a present Balanced Score Card initiative.

The Purchase Card Data Mining segment provides programs with services to increase the effectiveness of surveillance of card transactions. It assures that transactions are in accordance with the Federal Acquisition Regulation and DOE policy and procedures. This reduces vulnerabilities and financial risk associated with purchase card usage for the Department. Data mining is part of a government-wide requirement to improve the effectiveness of charge card programs. It is critical to the management of DOE's purchase card program in order to ensure that a system of internal controls is followed and to mitigate the potential for fraud, misuse, abuse and delinquency.

DOE's data mining for purchase card transactions satisfies several oversight requirements. GAO recommends data mining to identify previously unrecognized or under appreciated risk. Data

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mining is required by the General Accountability Office and by the FY 2006 Treasury, Transportation, and HUD appropriation bill (P.L. 109-115). A Requirements and Benchmarks Plan was written and is used to reduce fraud, misuse, and abuse of government purchase cards. As required by the Bill a copy was sent to the House and Senate Committees on Appropriations.

Finally, data mining is also required by OMB Circular A-123, Appendix B – Improving the Management of Government Charge Card Programs. A purchase card program management plan was written and is revised annually and submitted to OMB Office of Federal Financial Management Controller.

**Planning Process:** Our objectives for improving business line performance are in line with those of MA and the WCF and support the Department's strategic objectives in Corporate Management. MA objectives are to provide the DOE with the best value and with quality products and management services. The WCF objectives are to improve the efficiency of DOE administrative services and to provide accurate full-cost budgets.

Each year the business line updates its five-year plan using a balanced scorecard approach with objectives, performance goals to measure our success, and strategies to reach our objectives. We report progress towards these balanced scorecard objectives to the WCF Board on a quarterly and annual basis. We implement **pricing policies** that are based on the guidelines provided in the Working Capital Fund Guide to Services and Procedures 2005 (the Blue Book). This guide and other Fund related information is available at <http://www.wcf/doe.gov>.

As a part of this process, training and development needs were evaluated along with management input, legislative and regulatory requirements, mission requirements, key reports and studies. An analysis of the data resulted in a determination to aggressively pursue overage instruments for retirement. This achieves regulatory requirements of the Federal Acquisition Regulation and other procurement/program mission objectives.

**External regulation and partnerships:** The Federal Acquisition Regulation (FAR) at Subparts 4.8, 42.3 and 42.7 address contract closeout. Contract closeout is a specific contract administration function of the Contracting Officer. The FAR sets forth time standards for closing out contract files. The Procurement Management Business Line Manager has incorporated the regulation requirements in the contract closeout process.

With reference to Purchase Card Data Mining, FAR Parts 4, 12, and 13 address simplified acquisition procedures. DOE's Policy and Operating Procedures describe established policies for using the purchase card. GSA's SmartPay Contract Number GS-23F-98004 and DOE's Task Order Number DE-AT01-98AD38153 contain specific terms and conditions for managing the purchase card program.

**Resources and capabilities of the organization:** There are two federal staff supported by 11 contractor staff who perform the actual contract close out. The Data Mining activity is supported by one full time federal employee and two full time contractor employees. Consulting services outside of this staffing is on an "as needed basis".

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**Needs and capabilities of customers:** Contract closeout is a small but integral part of the entire procurement effort provided to DOE program customers by the Office of Headquarters Procurement Services. Its value is to complete the final stage of the procurement process, competent processing in compliance with government regulations, and as a source of uncosted balances. Customers cannot provide this service themselves and rely on this business to complete the closeout actions on these instruments. Customers enjoy timely and accurate forecasts of spending and an auditable accounting of related costs.

The types of DOE instruments are changing with a trend toward more performance-based, firm fixed price, labor hour and time and material contracts as well as task orders resulting in fewer cost reimbursement contracts. This has had the effect of reducing overall processing time for contract closeouts and reducing the amount of potential revenue. It has also had the effect of increasing the total number of instruments subject to contract closeout.

Data mining is a GAO recommendation that identifies previously unrecognized or under-appreciated risk and is designed to detect and prevent purchase card fraud and misuse.

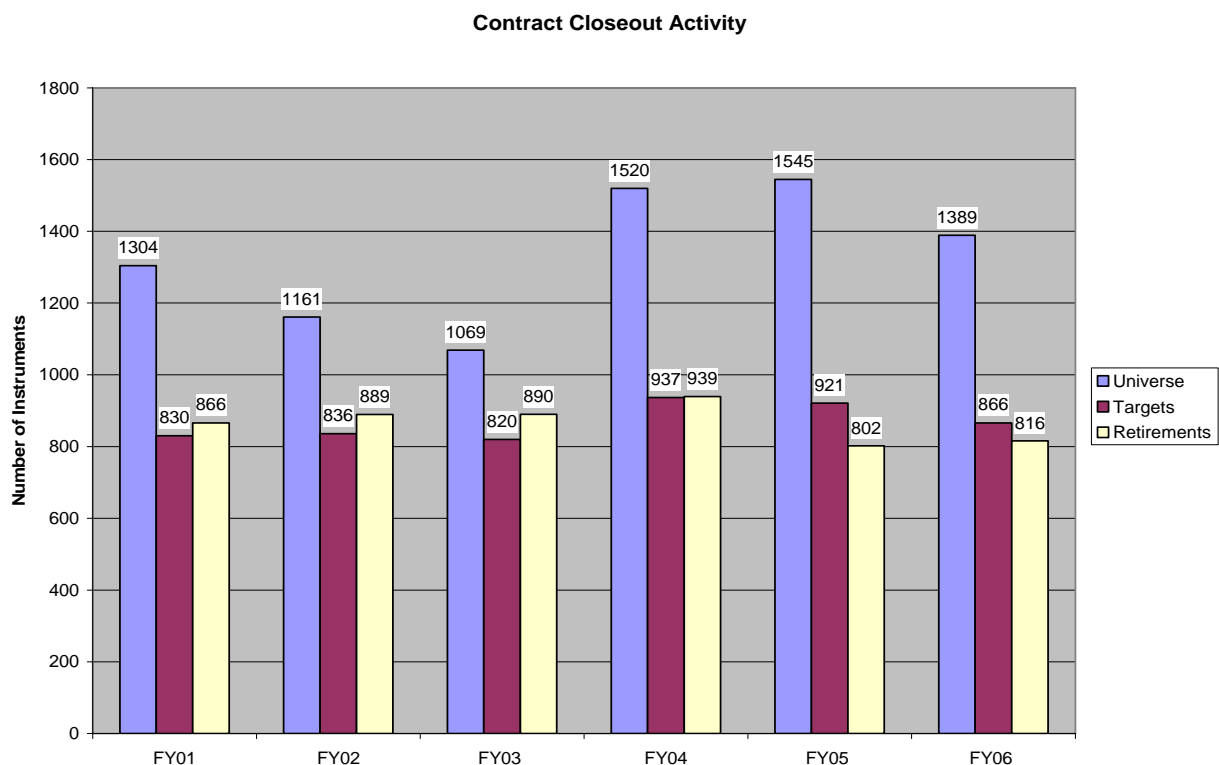
### Balance Scorecard Elements

**Customer Objective: Provide competent and accurate closeout of targeted instruments, with a special focus on overage expired instruments. Improve the visibility of purchase card transactions, with emphasis on reducing any known vulnerabilities.**

The supply of contracts in closeout status is a product of the general contracting activities of program customers. Customer demand is for a competent process to complete the procurement process. We serve our customers by communicating the inventory of their contracts in closeout status, predicting their WCF funding requirements, and keeping them informed of the monthly status of closeout and uncosted balances made available as a result of the closeout. Prior to the beginning of a new fiscal year, a service agreement representing the instruments that will be targeted for retirement with each Headquarters program customer is established. Upon receipt of their advanced funding, we begin executing contract closeouts and report each month, where appropriate, progress on closeouts, uncosted balances returned to DOE, and closeout status.

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Performance Goal For Contract Closeout	Performance Standard
Retire physically completed targeted instruments.	Close 100% of targeted contracts each fiscal year.



**Baselines:**

**Data Source:** PADS, and FPDS-NG

**Frequency:** Monthly

Strategies for Improving Customer Satisfaction For Contract Closeout	Fiscal Year				
	2007	2008	2009	2010	2011
Negotiate with customers the number and type of contracts to be closed each year.	x	x	x	x	x
Prepare monthly status report for customers.	x	x	x	x	x

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<b>Performance Goal for Purchase Card Data Mining</b>	<b>Performance Standard</b>
Mitigate risk to programs of fraud, waste, and abuse of purchase cards.	Resolve all instances of questionable uses of purchase cards.

<b>Strategies for Improving Customer Satisfaction For Purchase Card Data Mining</b>	<b>FY2007</b>	<b>FY2008</b>	<b>FY2009</b>	<b>FY2010</b>	<b>FY2011</b>
Data Mining Pilot Phase 1					
Data Mining Pilot Phase 2					
Data Mining Pilot Phase 3	X				
Purchase Card Data Mining Full Implementation, DOE-Wide	X	X	X	X	X
Fleet Data Mining Implementation		X	X	X	X

**Baselines:**

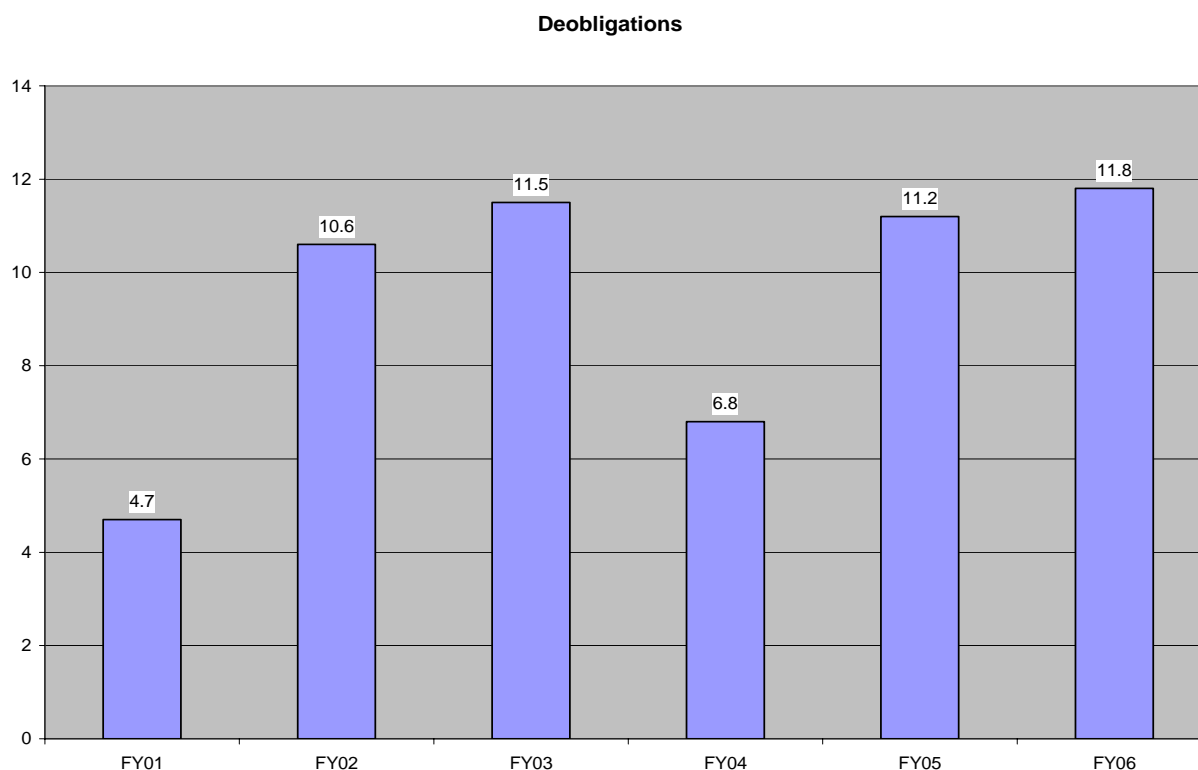
**Data Source:** EAGLS and ACL      **Frequency:** Monthly

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**Financial Objective: Improve the availability of funding for programs.**

In FY 2006, the business line activity resulted in total contract deobligations of \$11.8 million.

Performance Goal for Contract Closeout	Performance Standard
Return uncosted balances	Return 100% of uncosted balances for retired instruments to DOE.



### Baselines:

**Data Source:** PADS, and FPDS-NG **Frequency:** Monthly

Performance Goal for Data Mining	Performance Standard
Prevent and detect instances of purchase card misuse, abuse, fraud for total purchase card spend annually.	Maintain $X < 0.01\%$ , where X equals number of instances of card abuse divided by total number of transactions

Beginning in 2006, the following statistics are measured and tracked for data mining results. The data mining software identifies transactions that meet the parameters set for each analytic and these are reviewed by a data analyst. The analyst initiates and sends a questionable transaction review to the reviewing official for those transactions that require further compliance review. Findings are confirmed instances of purchase card misuse, abuse, and fraud, including vendor fraud.



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The number of transactions reviewed, questionable transactions identified, and compliance review findings are measured and presented as a percentage of total number of transactions. Measuring percentage of total dollars spent is not reliable for benchmarking due to the insinuating nature of abuse but is included in the chart below for information only. The industry baseline for percent of instances of misuse, abuse, and fraud is 0.01% of total number of transactions.

### Purchase Card Transactions

	Total	Percent of total
No. Transactions	166,267	
No. transactions reviewed by analyst	139,000	83.6005
No. Questionable transactions	108	0.0650
No. Findings	9	0.0054
Spend	87,500,000	
Dollar value of transactions reviewed by analyst	73,500	0.0840
Dollar value of questionable transactions	43666	0.0499
Dollar value of findings	12916	0.0148

#### **Baselines:**

**Data Source:** EAGLS and ACL      **Frequency:** Monthly

Strategies for Improving Financial Efficiency/Accountability	Fiscal Year				
	2007	2008	2009	2010	2011
Prioritize closeout of targeted instruments to maximize deobligations of funds.	X	X	X	X	X
Utilize data mining to prevent and detect purchase card fraud, misuse, and abuse	X	X	X	X	X
Data mining results used to identify policy and training gaps			X	X	X
Expand data mining to include fleet and travel transactions			X	X	X

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**Internal Processes Objective: Improve contract closeout to accommodate changing contract types. Fully implement Phase 1, 2, and 3 of data mining pilot project**

### Contract Closeout

A contractor performs the administrative contract closeout function for Headquarters. Process improvements rely on the Contract Closeout business line staff and contractor efforts in process review, training, and improved business methods. The types of DOE instruments are changing with a trend toward more performance-based contracts, firm fixed price, labor hour and time and material contracts and task orders and fewer cost reimbursement contracts. This has had the effect of reducing overall processing time for contract closeouts. It has also had the effect of increasing the total number of instruments subject to contract closeout.

The inventory of Headquarters contracts, financial assistance instruments, and interagency agreements awaiting closeout has experienced a steadily decreasing trend during the years that this activity has been a Working Capital Fund business. The inventory has decreased from 2,927 instruments in FY 1996 to 1545 instruments by the end of FY 2005. With this reduction in the backlog of aged instruments, the contract closeout business line is operating with a manageable inventory. This was achieved through customer/supplier cooperation. Customers have agreed to finance annually the closeout of approximately the number of new instruments becoming available for closeout, stabilizing the inventory, and, as shown in the comparison of annual targets to actual retirements, the business line is meeting the targeted number of retired instruments in accordance with service agreements. Retirement of overage instruments is important to Program customers because it is required by regulation and releases uncosted balances from DOE instruments to the Department.

### Purchase Card Data Mining

Data analyst will provide the Purchase Card Program Manager with quarterly reports that show the number of purchase transactions analyzed, the numbers of exceptions to be reviewed by the analyst, and the number of those exceptions that were flagged for follow-up. After the flagged transactions are examined, the reviewing official for that cardholder answers a number of questions concerning the transaction and this is returned to the analyst for final disposition. There are 16 final disposition codes, ranging from abuse, fraud, misuse, referred to the Inspector General, and no fraud found.

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Performance Goal for Contract Closeout	Performance Standard
Reduce over-aged instruments	Reduce over-aged instruments by 10%

<u>OVERAGE INSTRUMENTS</u>	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 05</u>	<u>FY 06</u>
BEGINNING UNIVERSE	287	256	189	141	101
ADDITIONS	553	401	499	434	450
RETIREMENTS	584	468	547	474	462
ENDING UNIVERSE	256	189	141	101	89
(-) REDUCTION / (+) INCREASE	-61	-67	-48	-40	-12
PERCENT	-11%	-26%	-25%	-28%	-12%

**Baseline:** Productivity is measured by the number of instruments actually closed versus those planned for closure during a specified time.

<u>Type of Instrument</u>	<u>Standard</u>
Purchase Order	6 hours
Firm Fixed Price	6 hours
Interagency Agreement	6 hours
Financial Assistance	11 hours
Cost Reimbursement	124 hours

**Data Source:** PADS, START and FPDS-NG

**Frequency:** Monthly

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Performance Goal for Data Mining	Performance Standard
Reduce the time required to resolve questionable uses.	Determine reasonable time-frame for review process.

Fiscal Year	Percent of Transactions Reviewed
2005	20
2006	60
2007	80
2008	100
2009	100

### Baselines:

**Data Source:** EAGLS and ACL      **Frequency:** Monthly

Strategies for Improving Internal Processes	Fiscal Year				
	2007	2008	2009	2010	2011
Analyze changing nature of contracts and their impact on contract closeout activity	x	x	x	x	x
Negotiate productivity improvements with contractors	x	x	x	x	X
Fully implement Phases 1, 2, & 3 of data mining project	X	X	X	X	X
Reduce time from purchase to final surveillance approval	X	X	X	X	X

**Learning and Growth Objective: Improve knowledge, skills and abilities of staff and improve business systems in support of business line mission.**

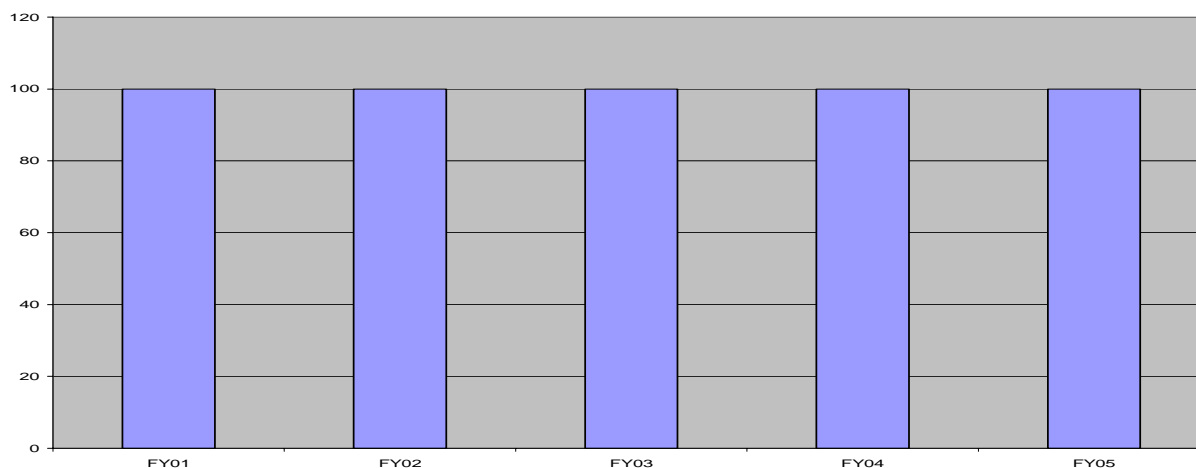
The Closeout Manual describes all duties related to contract closeout. It is distributed to all contractor staff to define duties and instruct them in proper procedures to perform contract closeouts. The manual is updated to ensure that contractors follow streamlined procedures. Contractor staff is trained using the manual. We have found it to be a significant contribution to staff skills. The contractor also has a succession plan in place to ensure the proper skills are maintained to fulfill their contractual requirements. We have performed an annual review of current and proposed Business/Operational Drivers and we have determined training and development needs for this business. In addition, the Closeout Manual has been placed on the Headquarters Procurement Services Website.

Purchase Card Program Manager conducts training in data mining in several ways to ensure Organizational Program Coordinators (OPC), approving officials and cardholders are aware of data mining policy and procedures. Formal training in the automated email notification and tracking system was completed in FY 2007. Data mining knowledge is also communicated through monthly teleconferences with OPCs and self study materials are available at a document library.

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Performance Goal	Performance Standard
Federal Employee IDPs	All Federal employees associated with the closeout business line have IDPs
Contractor Employee Training	Each contractor employee is assessed annually for incremental training needs

### Baseline:



**Data Source:** Employee IDPs

**Frequency:** Annual

Strategies for Improving Employee Learning and Growth	Fiscal Year				
	2007	2008	2009	2010	2011
Ensure all Federal employees have IDPs and contractor assessments are completed.	X	X	X	X	X
Ensure all Federal IDPs are completed and contractor training, as needed is also completed.	X	X	X	X	X
Update the Closeout Manual as needed to improve closeout processing.	X	X	X	X	X